

Mix of tax increases, spending cuts helps Philly stay afloat in budget wars

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In March, 2011 Philadelphia Mayor Michael Nutter [unveiled his vision of the city's fiscal future](#), releasing his proposed 2012 budget as well as the city's long-term 5 Year Financial and Strategic Plan. In many ways it was simply a wish list: in addition to needing City Council approval before adoption, the mayor had decided to announce his figures on March 3rd, a week before Pennsylvania Governor Tom Corbett was set to release his own state budget.

The two policy makers offered a study in contrasts. Nutter, a lifelong resident of deep blue Democratic Philadelphia, which hasn't elected a Republican mayor since 1947, was looking for a way to preserve city services offered to and cherished by his constituents. Corbett, who weathered a Tea Party challenge to his right on the way to winning the Republican nomination and eventually the governor's mansion, was looking to polish up his bonafides with a party base that still wasn't entirely convinced of his dedication to the budget slashing fervor he had promised during the election. By opting not to wait until after [Corbett released his figures](#), Nutter was largely in the dark regarding the level of financial assistance the city could expect from the Commonwealth.

This is no small matter. Faced with what Nutter himself called "a triple threat from cuts in federal and state funding as well as cuts to Philadelphia School District resources," the city's ability to fund government services at 2010-11 levels would be severely tested.

"There is no easy way to tackle a recession," said Nutter in his budget address.

Indeed, Corbett's budget [wound up slashing more than \\$1 billion in education funding](#) on the state level as well as financial aid to municipal school districts. The result was a [\\$292 million cut in state funding to Philadelphia schools](#) in basic education, charter school reimbursement, accountability block grants, educational assistance and dual enrollment programs. The school district [requested an additional \\$102 million from the city](#), leaving Nutter and the City Council scrambling to devise a way to pick up the slack without gutting the whole school system. His overall theme for Fiscal Year 2012 was to cautiously (and preemptively) draw a line in the sand. "We don't know exact details yet [for the state budget] but as we wait for possible cuts, we ask that these cuts don't force us to balance our budget on the backs of those who are least able to carry the weight."

Spending

City Budget Comparisons FY10-FY12							
FY10		FY11		FY12			
	FY10 \$		FY11 \$		FY12 \$		
Revenue	6,200,247,000	Revenue	6,827,488,000	↑ 10.10%	Revenue	7,275,093,000	↑ 5.79%
Budget	6,276,343,084	Budget	6,778,424,960	↓ 8.00%	Budget	7,354,675,054	↑ 8.50%
Surplus/Deficit	-76,096,084	Surplus/Deficit	49,063,040	↑ 164.00%	Surplus/Deficit	-79,582,054	↓ -368.19%
Estimated IT Budget	62,328,897	Estimated IT Budget	122,978,588	↑ 97.31%	Estimated IT Budget	121,606,280	↓ -1.12%
		Director of Finance (Dept. w/loss)	159,607,955	↑ 12.50%	Director of Finance (Dept. w/loss)	1,468,334,349	↑ 5.00%
		Revenue (Dept. w/Most Loss)	30,618,563	↓ 23.45%	Law (Dept. w/Most Loss)	19,078,437	↓ -5.26%

Click on the image above for a full-sized version.

For a city anticipating cuts in federal and state aid, Philadelphia's spending resembles the budgets of pre-recession 2008 rather than that of its counterparts on the state and federal level. While General Fund expenditures are technically down \$330 million from last year's budget, this is almost entirely a mirage caused by moving the Department of Human Services from the General Fund to the Grants Fund. Remove that from the equation and General Fund spending actually increased by more than \$40 million over last year's budget. At the All Funds level this trend is even more pronounced, with the city expecting to spend \$7.35 billion this year compared to \$6.78 billion in 2011.

The largest single departmental increase in spending over last year goes to the Office of the Director of Finance, which saw a nearly \$200 million funding increase from \$1.27 billion in 2011 to 1.469 billion in 2012. However, the vast majority of this increase was due to rising healthcare costs, pensions, miscellaneous payments and other fringe benefits for existing city employees. Philadelphia, like many other governments, has seen a dramatic jump in the cost of health and retirement benefits. The [pension fund is less than 50 percent funded](#) and the cost of pension and healthcare costs for city employees accounts for 30 percent of the current budget.

Continuing this theme, the next largest departmental gains from Fiscal Year 2011 to 2012 belonged to the Department of Human Services. The Department of Human Services moved from the General Fund to the Grants Fund this year and saw a year-over increase in funding of \$94 million from Fiscal 2011. A little more than \$42 million of that increase is due to healthcare and pension costs, but the department also saw nearly \$52 million in additional purchases of services this year. Notable IT expenditures include \$500,000 for global positioning technology for the First Judicial District, \$387,418 for case management and data development and service integration and \$700,000 for the Free Library of Philadelphia's LEAP After School program. Since 2010, many of the largest IT line item expenditures have been funded through the Division of Technology.

The largest department decrease in funding came from the Office of Housing and Community Development, which took a \$30 million hit from last year's budget. This drop in spending needs to be put in the context of last year's \$80 million increase from 2010 to 2011. Overall spending in the office is still up \$50 million over the last three years, and virtually all of that new spending was in purchase of services. Most of these purchases are for non-IT related expenditures, but one notable item of new spending is \$100,000 earmarked by the city for consulting services related to the upgrade and replacement of the following IT solutions: Cross Accounting Software, Mortgage Management Software Migration, Microsoft Exchange Migration to Lotus Notes and Data Center Consolidation. All of these projects have at least the potential to go out to bid at some point depending on consultant recommendations. At the very least they provide vendors insight into which technologies are due for upgrade or replacement over the next 6-18 months.

The second largest decrease was the Law Department, which cut more than \$26 million, more than half of last year's \$45 million figure. The overwhelming majority of cuts came from Purchase of Services, with the city allocating \$22 million less in Fiscal 2012 than it did in 2011. There were no notable cuts or increases in IT spending within the department.

To read GovWin's complete budget analysis for the City of Philadelphia, read our AP [here](#).